

HUMBOLDT COUNTY MEMORIAL HOSPITAL
INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2012 AND 2011

HUMBOLDT COUNTY MEMORIAL HOSPITAL

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HUMBOLDT COUNTY MEMORIAL HOSPITAL
Officials
June 30, 2012

<u>Board of Trustees:</u>	<u>Address</u>	<u>Term Expires</u>
Tim Anderson, Chairperson	Humboldt, Iowa	2012
Rod Harklau, Vice-Chairperson	Humboldt, Iowa	2012
David Boswell, Secretary	Humboldt, Iowa	2016
Steve Long, Treasurer	Humboldt, Iowa	2016
Marlene Thompson	Humboldt, Iowa	2016
Vivien Hansen	Humboldt, Iowa	2012
Pam Olson	Humboldt, Iowa	2014

Chief Executive Officer:

James Atty	Humboldt, Iowa
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Chief Financial Officer:

Arthur Holle	Humboldt, Iowa
Betty Etherington (retired June, 2012)	Humboldt, Iowa

Gronewold, Bell, Kyhnn & Co. P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Humboldt County Memorial Hospital
Humboldt, Iowa

We have audited the accompanying consolidated balance sheets of Humboldt County Memorial Hospital as of June 30, 2012 and 2011, and the related consolidated statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Humboldt County Memorial Hospital as of June 30, 2012 and 2011, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 28, 2012 on our consideration of Humboldt County Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

To the Board of Trustees
Humboldt County Memorial Hospital

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis and the Budgetary Comparison Information on pages 4 through 4e and on page 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Humboldt County Memorial Hospital's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2010 (which are not presented herein) and expressed qualified opinions on those financial statements. The supplementary information on pages 1 and 24 through 42 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

 - W. P. C.

Atlantic, Iowa
September 28, 2012



Committed to Serve; Compassion to Care

HUMBOLDT COUNTY MEMORIAL HOSPITAL

1000 N. 15TH STREET

HUMBOLDT, IOWA 50548

(515)332-4200

HUMBOLDT COUNTY MEMORIAL HOSPITAL Management's Discussion and Analysis

The financial statements enclosed contain the consolidated financial information of Humboldt County Memorial Hospital and Humboldt County Memorial Hospital Foundation. This discussion and analysis of the Hospital's and Foundation's financial performance provides an overview of their financial activity for the fiscal years ended June 30, 2012, 2011, and 2010. Please read it in conjunction with the Hospital's consolidated financial statements, which begin on page 5.

FINANCIAL HIGHLIGHTS

The Hospital's net assets increased in each of the past two years. Net assets increased by \$324,324 or 1.6 percent from 2011 to 2012 and by \$988,234 or 5.3 percent from 2010 to 2011.

The Hospital reported an operating loss of \$101,691 in 2012 and an operating income of \$115,424 in 2011. The 2012 results reflect a decrease of \$217,115 or 188.1 percent as compared to 2011 results. Operating profit decreased in 2011 as compared to 2010 by \$208,225. This reflects 64.3 percent decrease.

Net non-operating revenues decreased by \$207,118 or 33.0 percent in 2012 compared to 2011. Net non-operating revenues decreased in 2011 by \$1,094 or 0.2 percent as compared to 2010.

USING THIS ANNUAL REPORT

The Hospital's financial statements consist of three statements - a Balance Sheet; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

THE BALANCE SHEET AND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Our analysis of the Hospital finances begins on page 4a of the financial statements. One of the most important questions to ask about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis - Continued

These two statements report the Hospital's net assets and changes in them. You can think of the Hospital's net assets - the difference between assets and liabilities - as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other non-financial factors such as changes in the Hospital's patient base, changes in local medical staff, access to visiting medical specialists as well as local economic factors to assess the overall health of the Hospital.

THE STATEMENT OF CASH FLOWS

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

THE HOSPITAL'S NET ASSETS

The Hospital's net assets are the difference between its assets and liabilities as reported in the Balance Sheet on page 5 of the financial statements. The Hospital's net assets increased in each of the past two years by \$324,324 (1.6 percent) in 2012 and \$988,234 (5.3 percent) in 2011, as you can see from Table 1.

Table 1: Assets, Liabilities, and Net Assets

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets:			
Current assets	\$ 3,117,633	\$ 2,941,314	\$ 3,741,125
Capital assets, net	11,687,887	12,074,861	12,421,893
Other non-current assets	<u>9,497,380</u>	<u>8,794,646</u>	<u>7,903,786</u>
Total assets	<u>\$ 24,302,900</u>	<u>\$ 23,810,821</u>	<u>\$ 24,066,804</u>
Liabilities:			
Long-term debt outstanding, net	\$ 2,145,622	\$ 2,424,163	\$ 2,692,387
Other current and noncurrent liabilities	<u>2,093,915</u>	<u>1,647,619</u>	<u>2,623,612</u>
Total liabilities	<u>\$ 4,239,537</u>	<u>\$ 4,071,782</u>	<u>\$ 5,315,999</u>
Net Assets:			
Invested in capital assets, net of related debt	\$ 9,393,465	\$ 9,583,493	\$ 9,643,170
Restricted for debt service	2,685,977	2,641,636	2,436,037
Unrestricted	<u>7,983,921</u>	<u>7,513,910</u>	<u>6,671,598</u>
Total net assets	<u>\$ 20,063,363</u>	<u>\$ 19,739,039</u>	<u>\$ 18,750,805</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis - Continued

The Hospital's total assets increased from \$23,810,821 in 2011 to \$24,302,900 in 2012 (up 2.1%). Capital assets decreased from \$12,074,861 in 2011 to \$11,687,887 in 2012 (down 3.2%). Designated assets increased from \$8,581,942 in 2011 to \$9,320,916 in 2012 (up 8.6%) as the Hospital was able to grow its reserve funds. Operating income decreased in 2012 by \$217,115 (down 188.1%) from 2011.

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

In 2012, the Hospital's net assets increased by \$324,324 or 1.6 percent, as shown in Table 2. This increase is made up of many different components. Total net assets at the end of 2012 were \$20,063,363 and \$19,739,039 at year-end 2011.

Table 2: Operating Results and Changes in Net Assets

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating Revenues:			
Net patient service revenues	\$ 11,467,811	\$ 10,777,543	\$ 11,083,551
Other operating revenues	<u>1,321,582</u>	<u>1,344,515</u>	<u>1,376,698</u>
Total operating revenues	12,789,393	12,122,058	12,460,249
Operating Expenses:			
Salaries and benefits	6,725,540	6,300,742	6,601,950
Professional fees	1,697,069	1,289,469	1,241,240
Other operating expenses	3,273,857	3,244,623	3,199,629
Depreciation and amortization	<u>1,194,618</u>	<u>1,171,800</u>	<u>1,093,781</u>
Total operating expenses	12,891,084	12,006,634	12,136,600
Operating Income (Loss)	(101,691)	115,424	323,649
Non-Operating Revenues and Expenses:			
County taxes	300,250	301,261	299,996
Investment income	160,478	410,383	297,738
Non-capital grants and contributions	71,140	39,367	97,645
Other non-operating revenues and expenses, net	<u>(111,176)</u>	<u>(123,201)</u>	<u>(66,475)</u>
Total non-operating revenues (expenses), net	420,692	627,810	628,904
Excess of Revenues Over Expenses Before Capital Grants and Contributions and Change in Accounting Estimate	319,001	743,234	952,553
Capital Grants and Contributions	5,323	--	--
Change in Accounting Estimate	<u>--</u>	<u>245,000</u>	<u>--</u>
Increase in net assets	324,324	988,234	952,553
Net Assets Beginning of Year	<u>19,739,039</u>	<u>18,750,805</u>	<u>17,798,252</u>
Net Assets End of Year	<u>\$ 20,063,363</u>	<u>\$ 19,739,039</u>	<u>\$ 18,750,805</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis - Continued

OPERATING INCOME (LOSS)

The first component of the overall change in the Hospital's net assets is its operating income or loss - generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2012, the Hospital reported an operating loss of \$101,691, while it had an operating income of \$115,424 in 2011.

Operating revenues have shown an increase from 2011 to 2012. This increase was mainly due to the addition of the pain clinic during 2012.

Revenue increases were noted in Surgery (up \$538,213 / 40.0%), Radiology (up \$327,488 / 16.7%), Anesthesiology (up \$454,062 / 194.5%), and Physical Therapy (up \$132,531 / 33.5%).

With the increase in revenue, along with a higher percentage of Medicare and Medicaid patients, contractual adjustments increased \$893,224 (up 38.9%).

The total cost of labor – wages and benefits – continues to be the largest component of the Hospital's expenses with general supplies being the second highest. With the increase in revenue, the Hospital's wages, employee benefits, and professional fees increased.

Increase in labor costs of \$206,170 (up 4.4%)

Increase in employee benefits of \$218,628 (up 13.8%)

Increase in professional fees of \$407,600 (up 31.6%)

The rate of healthcare inflation has a direct effect on the cost of services provided by the Hospital. The Hospital continues to grow its technology in the area of clinical care, patient diagnostics and electronic health records. Investments in the facility and technology improve the efficiency of the Hospital and increase its ability to provide quality affordable healthcare locally.

HUMBOLDT COUNTY MEMORIAL HOSPITAL Management's Discussion and Analysis - Continued

The Hospital sometimes provides care for patients who have little or no health insurance or other means of payment. This service to the community is consistent with the goals established for the Hospital when it was established in 1970 when it was agreed that a portion of the Hospital's costs would be subsidized by property tax revenues, making the facility more affordable to the County's lower income residents. This is reflected in the Hospital's accounts written off as uncollectible. In 2011, \$298,876 in accounts were written off as uncollectible. This figure decreased to \$285,835 in 2012. This reflects a 4.4% percent decrease over this two year period. The decrease reflects a more proactive approach to collections and settlements. This figure does not include the \$70,311 in approved Charity Care applications which has increased as more patients are unable to pay for services.

NON-OPERATING REVENUES AND EXPENSES

Non-operating revenues consist primarily of property taxes levied by the Hospital and income from investments. The Hospital has maintained its tax asking at approximately \$300,000 over the past three years. Non-capital grants and contributions increased by \$31,773 or 80.7% when compared to 2011. Investment income decreased by \$249,905 or 60.9% as the equity investments held by the Foundation did not experience the large increase in market value during 2012 that it did in 2011. Hospital interest expense decreased \$9,916 from 2011. Overall, net non-operating revenues decreased from \$627,810 to \$420,692 from 2011 to 2012.

THE HOSPITAL'S CASH FLOWS

Changes in the Hospital's cash flows are consistent with changes in operating profits and non-operating revenues and expenses. The net change in the Hospital's cash position is a decrease of \$104,299 in 2012 from 2011.

BUDGETARY HIGHLIGHTS

Actual expenses were lower than the amended budget by \$834,613. Actual revenues were lower than budgeted by \$598,630.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis - Continued

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2012, the Hospital had approximately \$11.7 million invested in capital assets, net of accumulated depreciation, as detailed in Note H to the financial statements. In 2012, the Hospital purchased new property and moveable equipment costing \$783,089. Of this, none was acquired through capital leases.

Debt:

At year-end 2012, the Hospital had a \$2,364,162 revenue note (bond) outstanding. The Hospital also has outstanding debt of \$60,000 through the Humboldt County Rural Electric Cooperative under the Rural Economic Development Loan and Grant Program. This non-interest bearing loan was used for the assisted living project.

OTHER ECONOMIC FACTORS

Physician recruitment and retention continues to be a goal for the Hospital.

The Hospital continues to deal with the rising cost of health insurance for the general population. This impacts the Hospital through higher deductibles, more coverage limitations and contracted discount requirements by insurance companies and an increasing number of uninsured individuals.

Employee retention is an important factor in the success of the Hospital. The need to provide competitive wages and benefits is important in retaining good employees and contributing to the growth of the Hospital.

The Hospital strives to provide state of the art technology and services. The Hospital also continues to invest in the current facility by completing many updates to its general appearance.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital Financial Director's Office, at Humboldt County Memorial Hospital, 1000 North 15th Street, Humboldt, Iowa 50548.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Consolidated Balance Sheets
June 30,

ASSETS

	<u>2012</u>	<u>2011</u>
Current Assets:		
Cash	\$ 802,398	\$ 864,385
Patient receivables, less allowances for doubtful accounts and for contractual adjustments (\$398,000 in 2012, \$286,000 in 2011)	1,242,060	1,089,996
Other receivables	65,308	67,909
Inventory	176,402	150,293
Prepaid expense	83,731	91,335
Succeeding year property tax receivable	291,000	291,000
Internally designated assets	456,734	386,396
Total current assets	<u>3,117,633</u>	<u>2,941,314</u>
Designated Assets:		
Internally designated assets	7,091,673	6,326,702
Restricted assets	2,685,977	2,641,636
	<u>9,777,650</u>	<u>8,968,338</u>
Less amounts required to meet current liabilities	456,734	386,396
	<u>9,320,916</u>	<u>8,581,942</u>
Capital Assets:		
Depreciable capital assets, net	11,495,158	11,994,870
Non-depreciable capital assets	192,729	79,991
	<u>11,687,887</u>	<u>12,074,861</u>
Deferred Financing Costs	176,464	201,019
Notes Receivable	<u>--</u>	<u>11,685</u>
Total assets	<u>\$ 24,302,900</u>	<u>\$ 23,810,821</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2012</u>	<u>2011</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 278,540	\$ 268,224
Accounts payable	454,709	356,709
Accrued employee compensation	350,819	316,408
Payroll taxes withheld and accrued	18,811	76,457
Accrued interest payable	16,470	18,172
Senior housing deposits	79,201	81,649
Estimated third-party payor settlements	457,000	239,000
Deferred revenue	147,365	--
Deferred revenue for succeeding year property tax receivable	<u>291,000</u>	<u>291,000</u>
Total current liabilities	<u>2,093,915</u>	<u>1,647,619</u>
Long-Term Debt:		
Note payable, less current maturities	36,000	60,000
Revenue note, less current maturities	<u>2,109,622</u>	<u>2,364,163</u>
Total long-term debt	<u>2,145,622</u>	<u>2,424,163</u>
Total liabilities	4,239,537	4,071,782
Net Assets:		
Invested in capital assets, net of related debt	9,393,465	9,583,493
Restricted - expendable	2,685,977	2,641,636
Unrestricted	<u>7,983,921</u>	<u>7,513,910</u>
Total net assets	<u>20,063,363</u>	<u>19,739,039</u>
Total liabilities and net assets	<u>\$ 24,302,900</u>	<u>\$ 23,810,821</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Consolidated Statements of Revenues, Expenses and Changes in Net Assets
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Revenue:		
Net patient service revenue	\$ 11,467,811	\$ 10,777,543
Other revenue	<u>1,321,582</u>	<u>1,344,515</u>
Total revenue	12,789,393	12,122,058
Expenses:		
Nursing service	2,451,233	2,316,549
Other professional service	4,300,571	3,860,000
Senior housing	447,434	427,567
General service	1,476,538	1,488,591
Fiscal and administrative service	3,020,690	2,742,127
Provision for depreciation	1,170,063	1,148,464
Amortization	<u>24,555</u>	<u>23,336</u>
Total expenses	<u>12,891,084</u>	<u>12,006,634</u>
Operating Income (Loss)	(101,691)	115,424
Non-Operating Revenues (Expenses):		
County taxes	300,250	301,261
Noncapital grants and contributions	71,140	39,367
Investment income	160,478	410,383
Gain on disposal of equipment	55	2,305
Interest expense	(105,303)	(115,219)
Foundation expense	<u>(5,928)</u>	<u>(10,287)</u>
Non-operating revenues, net	<u>420,692</u>	<u>627,810</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions and Change in Accounting Estimate	319,001	743,234
Capital Grants and Contributions	5,323	--
Change in Accounting Estimate (Note N)	<u>--</u>	<u>245,000</u>
Increase in Net Assets	324,324	988,234
Net Assets Beginning of Year	<u>19,739,039</u>	<u>18,750,805</u>
Net Assets End of Year	<u>\$ 20,063,363</u>	<u>\$ 19,739,039</u>

The accompanying notes are an integral part of these statements.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Consolidated Statements of Cash Flows
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 11,681,265	\$ 10,372,493
Cash paid to suppliers	(6,792,759)	(6,150,852)
Cash paid to employees	(4,912,698)	(4,945,098)
Other revenue	<u>1,321,582</u>	<u>1,344,515</u>
Net cash provided by operating activities	1,297,390	621,058
Cash flows from non-capital financing activities:		
County tax revenue	300,250	301,261
Noncapital grants and contributions	<u>71,140</u>	<u>39,367</u>
Net cash provided by non-capital financing activities	371,390	340,628
Cash flows from capital and related financing activities:		
Capital grants and contributions	5,323	--
Principal paid on long-term debt	(268,225)	(258,327)
Capital expenditures	(592,130)	(487,193)
Construction in progress expenditures	(114,023)	(303,519)
Proceeds from disposal of equipment	55	2,305
Interest paid	(107,005)	(116,851)
Foundation expense	<u>(5,928)</u>	<u>(10,287)</u>
Net cash used in capital and related financing activities	(1,081,933)	(1,173,872)
Cash flows from investing activities:		
Investment income	121,348	147,120
Change in designated assets	<u>(812,494)</u>	<u>(675,276)</u>
Net cash used in investing activities	(691,146)	(528,156)
Net decrease in cash and cash equivalents	(104,299)	(740,342)
Cash and cash equivalents beginning of year	<u>1,431,656</u>	<u>2,171,998</u>
Cash and cash equivalents end of year	<u>\$ 1,327,357</u>	<u>\$ 1,431,656</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash in current assets	\$ 802,398	\$ 864,385
Cash and cash equivalents in designated and restricted assets	<u>524,959</u>	<u>567,271</u>
	<u>\$ 1,327,357</u>	<u>\$ 1,431,656</u>

(continued next page)

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Consolidated Statements of Cash Flows - continued
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$(101,691)	\$ 115,424
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	1,170,063	1,148,464
Amortization	36,240	35,022
Salaries and wages capitalized	(30,212)	(63,084)
Change in accounting estimate	--	245,000
Change in assets and liabilities		
Accounts receivable	(149,463)	7,607
Inventory	(26,109)	74,724
Prepaid expense	7,604	(10,205)
Accounts payable, trade	51,276	(105,385)
Accrued employee compensation	34,411	(171,287)
Payroll taxes withheld and accrued	(57,646)	2,435
Senior housing deposits	(2,448)	(4,657)
Estimated third-party payor settlements	218,000	(653,000)
Deferred revenue	147,365	--
Total adjustments	<u>1,399,081</u>	<u>505,634</u>
Net cash provided by operating activities	<u>\$ 1,297,390</u>	<u>\$ 621,058</u>

The accompanying notes are an integral part of these statements.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

Humboldt County Memorial Hospital (the Hospital) is a critical access county hospital with related healthcare ancillary, outpatient, long-term care, and senior housing services. The Hospital is organized under Chapter 347 of the Code of Iowa, accordingly is a political subdivision of the State of Iowa, and is therefore exempt from federal and state income taxes. It is governed by a seven member board of trustees elected for six year terms. The Hospital has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The criteria for determining financial accountability include: appointing a majority of an organization's governing body, and (a) the Hospital's ability to impose its will on that organization, or (b) the potential for the organization to provide benefits to or impose financial burdens on the Hospital. The Hospital has one identified component unit: Humboldt County Memorial Hospital Foundation (the Foundation). Substantially all of the economic resources of the Foundation are designated for the direct benefit of the Hospital. Accordingly, the assets, liabilities, and activities of the Foundation have been consolidated with those of the Hospital in these financial statements. The Foundation is a not-for-profit corporation exempt from income tax under Section 501 of the Internal Revenue Code.

2. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), that do not conflict with or contradict GASB pronouncements.

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less, including designated and restricted assets.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

5. Inventory Valuation

Inventory is valued at the lower of cost (first-in, first-out method) or market.

6. Investments

Investments are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue when earned, unless restricted by donor or law.

7. Capital Assets

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets with lives in excess of four years and cost in excess of \$5,000 are capitalized. These capital assets, other than land, are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives (fifteen to forty years for buildings and land improvements and five to twenty years for equipment).

8. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The Hospital did not capitalize any interest costs in 2012 or 2011.

9. Compensated Absences

Hospital employees earn paid time off hours at varying rates depending on years of service. Paid time off accumulates to a maximum of 360 hours for management level employees and 240 hours for all other staff. Any excess over those limits accumulated by the employee's anniversary date is lost. The computed amount of paid time off earned by year end is recorded as part of accrued employee compensation.

10. Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

**NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued**

11. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

12. Property Tax Levy

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied. Property tax revenue is reported as non-operating revenue when collected by the County Treasurer.

13. Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

14. Restricted Resources

Use of restricted or unrestricted resources for individual projects is determined by the Hospital Board of Trustees based on the facts regarding each specific situation. All of the assets of the Foundation are included in restricted assets on the balance sheets because they are controlled by the Foundation Board.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

15. Net Assets

Net assets of the Hospital are classified in three components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net assets* are noncapital net assets that must be used for a particular purpose or permanent endowments, as specified by creditors, grantors, or contributors external to the Hospital. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt or restricted*.

16. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as bad debts or charity service depending on the timing of the charity determination.

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

A summary of the payment arrangements with major third-party payors follows:

Medicare and Medicaid - Inpatient services and most outpatient services related to program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries. The Hospital's Medicare cost reports have been audited and finalized by the fiscal intermediary through June 30, 2010. The Hospital's Medicaid cost reports have been finalized by the fiscal intermediary through June 30, 2009. However, finalized cost reports are subject to re-opening by the intermediaries within three years after the date of finalization. Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

NOTE C - RESTRICTED NET ASSETS

Restricted expendable net assets are available for the following purposes:

	<u>2012</u>	<u>2011</u>
Controlled by Foundation Board	\$ 2,485,892	\$ 2,397,551
Long-term debt	200,085	200,195
Purchase of property and equipment	<u>--</u>	<u>43,890</u>
	<u>\$ 2,685,977</u>	<u>\$ 2,641,636</u>

The Hospital has no restricted nonexpendable net assets or endowments at June 30, 2012 or 2011.

Following is a summary of the use of temporarily restricted net assets during the year ended June 30:

	<u>2012</u>	<u>2011</u>
Payment of long-term debt	\$ 110	\$ 70
Purchase of property and equipment	49,213	--
Foundation operating costs	<u>5,928</u>	<u>10,287</u>
	<u>\$ 55,251</u>	<u>\$ 10,357</u>

NOTE D - DESIGNATED NET ASSETS

Of the \$7,983,921 (\$7,513,910 as of June 30, 2011) of unrestricted net assets as of June 30, 2012, \$7,091,673 (\$6,326,702 for 2011) has been designated by the Hospital's Board of Trustees for purposes identified in the following schedule. These assets remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes.

	<u>2012</u>	<u>2011</u>
Capital acquisitions	\$ 6,582,544	\$ 5,822,239
Employee health insurance	<u>509,129</u>	<u>504,463</u>
	<u>\$ 7,091,673</u>	<u>\$ 6,326,702</u>

NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2012 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. See Note M regarding the Foundation's deposits. Investments are stated as indicated in Note A.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

NOTE E - DEPOSITS AND INVESTMENTS - Continued

The Hospital is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district. The Foundation is not limited to state investment regulations, and is therefore able to invest in equity securities.

The composition of designated and restricted assets is as follows:

	<u>2012</u>	<u>2011</u>
Internally Designated Assets:		
Cash	\$ 509,129	\$ 504,463
Certificates of deposit	6,575,183	5,811,799
Interest receivable	<u>7,361</u>	<u>10,440</u>
	<u>\$ 7,091,673</u>	<u>\$ 6,326,702</u>
Restricted Assets:		
Cash	\$ 15,830	\$ 62,808
Certificates of deposit	518,733	517,431
Equity securities	2,150,672	2,060,373
Interest receivable	<u>742</u>	<u>1,024</u>
	<u>\$ 2,685,977</u>	<u>\$ 2,641,636</u>

Investment income for designated and restricted assets, cash equivalents, and other investments is comprised of the following for the year ended June 30:

	<u>2012</u>	<u>2011</u>
Interest income	\$ 70,068	\$ 98,548
Dividend income	51,280	48,572
Unrealized gains on investments	<u>39,130</u>	<u>263,263</u>
	<u>\$ 160,478</u>	<u>\$ 410,383</u>

The Hospital's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Hospital.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

NOTE F - FAIR VALUE MEASUREMENTS

The Hospital's investments are reported at fair value in the accompanying balance sheets. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs are unobservable and have the lowest priority. The Hospital uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Hospital measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 1 inputs were available for all investments at June 30, 2012 and 2011.

Level 1 Fair Value Measurements

The fair value of equity securities is based on quoted net asset values of the shares held by the Hospital at year-end. Level 1 fair values for equity securities using quoted prices on active markets for identical assets were \$2,150,672 at June 30, 2012 (\$2,060,373 at June 30, 2011).

NOTE G - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2012 and 2011, was as follows:

	<u>2012</u>	<u>2011</u>
Receivable from:		
Patients	\$ 207,019	\$ 195,835
Medicare	794,712	606,756
Medicaid	71,086	58,610
Wellmark	262,525	251,958
Other commercial insurance carriers	282,043	247,495
Others	<u>22,675</u>	<u>15,342</u>
	1,640,060	1,375,996
Less allowances for doubtful accounts and contractual adjustments	<u>398,000</u>	<u>286,000</u>
	<u>\$ 1,242,060</u>	<u>\$ 1,089,996</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

NOTE H - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2012 and 2011 were as follows:

<u>Cost</u>	<u>Balance 2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2012</u>
Land Improvements	\$ 149,788	\$ 83,371	\$ --	\$ 233,159
Buildings and Fixed Equipment	12,517,728	81,892	--	12,599,620
Major Movable Equipment	6,573,867	505,088	37,244	7,041,711
Senior Housing Assets	5,136,584	--	--	5,136,584
	<u>24,377,967</u>	<u>670,351</u>	<u>37,244</u>	<u>25,011,074</u>
<u>Depreciation</u>				
Land Improvements	105,391	9,477	--	114,868
Buildings and Fixed Equipment	4,937,450	498,210	--	5,435,660
Major Movable Equipment	5,280,754	416,494	37,244	5,660,004
Senior Housing Assets	<u>2,059,502</u>	<u>245,882</u>	<u>--</u>	<u>2,305,384</u>
Total Depreciation	<u>12,383,097</u>	<u>1,170,063</u>	<u>37,244</u>	<u>13,515,916</u>
Total Depreciable Capital Assets, Net	<u>\$ 11,994,870</u>	<u>\$(499,712)</u>	<u>\$ --</u>	<u>\$ 11,495,158</u>
Construction in Progress	\$ 31,497	\$ 144,235	\$ 31,497	\$ 144,235
Land	<u>48,494</u>	<u>--</u>	<u>--</u>	<u>48,494</u>
Total Non-Depreciable Capital Assets	<u>\$ 79,991</u>	<u>\$ 144,235</u>	<u>\$ 31,497</u>	<u>\$ 192,729</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

NOTE H - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2011</u>
Land Improvements	\$ 149,788	\$ --	\$ --	\$ 149,788
Buildings and Fixed				
Equipment	12,122,520	395,208	--	12,517,728
Major Movable Equipment	6,276,368	463,005	165,506	6,573,867
Senior Housing Assets	<u>5,136,584</u>	<u>--</u>	<u>--</u>	<u>5,136,584</u>
	23,685,260	858,213	165,506	24,377,967
<u>Depreciation</u>				
Land Improvements	100,328	5,063	--	105,391
Buildings and Fixed				
Equipment	4,443,892	493,558	--	4,937,450
Major Movable Equipment	5,047,814	398,446	165,506	5,280,754
Senior Housing Assets	<u>1,808,105</u>	<u>251,397</u>	<u>--</u>	<u>2,059,502</u>
Total Depreciation	<u>11,400,139</u>	<u>1,148,464</u>	<u>165,506</u>	<u>12,383,097</u>
Total Depreciable Capital Assets, Net	<u>\$ 12,285,121</u>	<u>\$ (290,251)</u>	<u>\$ --</u>	<u>\$ 11,994,870</u>
Construction in Progress	\$ 88,278	\$ 360,785	\$ 417,566	\$ 31,497
Land	<u>48,494</u>	<u>--</u>	<u>--</u>	<u>48,494</u>
Total Non-Depreciable Capital Assets	<u>\$ 136,772</u>	<u>\$ 360,785</u>	<u>\$ 417,566</u>	<u>\$ 79,991</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

NOTE I - NON-CURRENT LIABILITIES

A schedule of changes in the Hospital's non-current liabilities for the years ended June 30, 2012 and 2011 follows:

	<u>Balance 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2012</u>	<u>Current Portion</u>
Long-Term Debt:					
Rural Economic					
Development Loan	\$ 84,000	\$ --	\$ 24,000	\$ 60,000	\$ 24,000
Series 2008 Revenue					
Note	<u>2,608,387</u>	<u>--</u>	<u>244,225</u>	<u>2,364,162</u>	<u>254,540</u>
Total Non-Current					
Liabilities	<u>\$2,692,387</u>	<u>\$ --</u>	<u>\$ 268,225</u>	<u>\$2,424,162</u>	<u>\$ 278,540</u>
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>Current</u>
	<u>2010</u>			<u>2011</u>	<u>Portion</u>
Long-Term Debt:					
Rural Economic					
Development Loan	\$ 108,000	\$ --	\$ 24,000	\$ 84,000	\$ 24,000
Series 2008 Revenue					
Note	<u>2,842,714</u>	<u>--</u>	<u>234,327</u>	<u>2,608,387</u>	<u>244,224</u>
Total Non-Current					
Liabilities	<u>\$2,950,714</u>	<u>\$ --</u>	<u>\$ 258,327</u>	<u>\$2,692,387</u>	<u>\$ 268,224</u>

In December, 2004, the Hospital borrowed \$240,000 through the Humboldt County Rural Electric Cooperative under the Rural Economic Development Loan and Grant Program. The loan is non-interest bearing and is payable in forty equal quarterly installments which began April 1, 2005. The loan is collateralized by the Hospital's net revenues generated by the senior housing assisted living facility.

The Series 2008 Hospital Revenue Note was issued in May, 2008 and is collateralized by the Hospital's net revenues. The note was issued for the purpose of refunding the Series 2000 and Series 2001 revenue bonds. The note matures in semi-annual payments of \$175,365, including interest at 4.18% per annum, through May, 2020.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

NOTE I - NON-CURRENT LIABILITIES - Continued

The combined annual debt service on the loan and note is expected to require less than 25% of cash flow available for debt service. For the current year, debt service and cash flow available for debt service were approximately \$375,000 and \$1,624,000 respectively.

Under the terms of the revenue note indentures, the Hospital is required to maintain certain deposits with a bank. Such deposits are included with restricted assets in the financial statements. The indentures also place limits on the incurrence of additional borrowings and require that the Hospital satisfy certain measures of financial performance as long as the note is outstanding.

Scheduled principal and interest repayments on long-term debt are as follows:

Year Ending June 30,	Long-Term Debt		
	Principal	Interest	Total
2013	\$ 278,540	\$ 96,190	\$ 374,730
2014	289,291	85,439	374,730
2015	288,496	74,234	362,730
2016	288,174	62,556	350,730
2017	300,345	50,385	350,730
2018-2020	979,316	72,868	1,052,184
	<u>\$ 2,424,162</u>	<u>\$ 441,672</u>	<u>\$ 2,865,834</u>

NOTE J - PENSION AND RETIREMENT BENEFITS

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 5.38% (5.78% beginning July 1, 2012) of their annual salary and the Hospital is required to contribute 8.07% (8.67% beginning July 1, 2012) of annual covered payroll. Contribution rates are slightly higher when employees are performing emergency response services. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2012, 2011, and 2010 were approximately \$393,000, \$329,000, and \$330,000, respectively, equal to the required contributions for each year.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

NOTE K - DEFERRED COMPENSATION PLAN

The Hospital sponsors a deferred compensation plan which is administered by an independent contractor under Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The Hospital's accounting and personnel departments are responsible for the accounting, reconciliations and record keeping associated with employees' enrollment, payments to the plan through payroll deductions, and timely transfer of withheld funds to the trustee designated by the participant for investment. The plan is designed so that each participant retains investment control of his/her individual account. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The Hospital's fiduciary responsibility is limited to due care in selecting the plan administrator. The administrator is responsible for withholdings and W-2s when the participants receive payments. The administrator is also required to submit an annual report to the Hospital. The Hospital is liable to a participant only for income lost because of its failure to send payment of a deferred amount as directed by the participant.

The market value of the exclusive benefit plan assets at June 30, 2012 was approximately \$118,000 (\$136,000 at June 30, 2011). This amount is not included in the financial statements since the Hospital does not own or hold in a trustee capacity the amounts deferred by employees and related income on those amounts.

NOTE L - AFFILIATED ORGANIZATION

The Hospital has an operating agreement with Trinity Health Systems (Trinity). Under the agreement, the Hospital's Chief Executive Officer is an employee of Trinity and the Hospital reimburses Trinity for the cost of the Chief Executive Officer's salary and benefits. The Hospital also pays a monthly fee to Trinity for management and laundry services. Under the agreement, Trinity exercises joint authority over the Hospital's operations with the Hospital's board. Trinity consults and works with the Hospital's board in formulating management strategies and recommendations regarding operations. Below is a list of transactions between the Hospital and this affiliate for the years ended June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Fees to Trinity for personnel and services	<u>\$ 217,416</u>	<u>\$ 243,009</u>

NOTE M - COMMITMENTS AND CONTINGENCIES

Risk Management

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Humboldt County Memorial Hospital is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the past three years.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

NOTE M - COMMITMENTS AND CONTINGENCIES - Continued

Construction in Progress

As of June 30, 2012, the Hospital has incurred costs totaling \$144,235 on equipment and a room remodel which will be put into service during the year ending June 30, 2013. No material commitments exist at June 30, 2012 related to these items.

Self-Funded Health Insurance

The Hospital has established an employee health insurance fund. Under the self-insured plan, the Hospital pays claims from this fund up to maximum limits and carries stop loss insurance for claims in excess of the limits. At June 30, 2012, the Hospital has designated funds in excess of actual claims paid of \$509,129 (\$504,463 at June 30, 2011). This amount of funds, shown under internally designated assets, would be made available should they be needed to pay claims in the future. The estimated amount of unpaid claims at June 30, 2012 is \$115,000 (\$100,000 at June 30, 2011) and is included in accounts payable.

Notes Receivable

The notes receivable represented funds advanced under an agreement with a healthcare professional practicing in the community. The agreement included commitments by the healthcare professional to provide medical services in the community for a specified period of years. In exchange for the commitments of time and services, the Hospital forgave the notes over the term of the commitments.

Off-Balance Sheet Risk

The Foundation maintains its deposits at a local bank. At various times throughout the year and at year end, the deposits in the bank exceeded the FDIC insured deposits limit for one entity (by approximately \$114,000 at year end). Management of the Foundation has received no indication of any potential viability problems with the bank by the date of this report.

The Foundation maintains approximately \$2,151,000 of its investment portfolio in various mutual funds, none of which are covered by any form of insurance against loss.

Other Post Employment Benefits (OPEB)

Plan Description: As required by state law, the Hospital offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The fully insured plan is a part of the plan offered to all Hospital employees, and the retirees must pay a health insurance premium equal to that charged for current employees. There are approximately 100 active employees and 2 retirees currently covered by the plan.

Potential for Liability: A review of the Hospital's current and potential future exposure to this requirement resulted in the conclusion that no material liability exists. Therefore no liability has been recorded.

Subsequent Events

The Hospital has evaluated all subsequent events through September 28, 2012, the date the financial statements were available to be issued.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Consolidated Financial Statements
June 30, 2012 and 2011

NOTE N - CHANGE IN ACCOUNTING ESTIMATE

The Medicare fiscal intermediary has completed its audits and settled all claims related to home office and other costs on open year cost reports through 2010. As a result, the Hospital has revised its estimate of potential liabilities owed to third party payors. The result of this change in estimate (a \$245,000 decrease in the liabilities and increase in net assets) has been reported as a separate item, below the excess of revenues over expenses, on the 2011 statement of revenues, expenses and changes in net assets.

* * *

REQUIRED SUPPLEMENTARY INFORMATION

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Budgetary Comparison Schedule
Year Ended June 30, 2012

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the accrual basis used to prepare the budget. The adjustments result from accounting for interest and net assets differently for financial statement and budget purposes.

	Per Financial Statements			
	Unrestricted Fund	Restricted Fund	Total	
Amount raised by taxation	\$ 300,250	\$ --	\$ 300,250	
Other revenues	12,769,021	152,065	12,921,086	
Transfers in (out)	<u>101,796</u>	<u>(101,796)</u>	<u>--</u>	
	13,171,067	50,269	13,221,336	
Expenses	<u>12,891,084</u>	<u>5,928</u>	<u>12,897,012</u>	
Net	279,983	44,341	324,324	
Balance beginning of year	<u>17,097,403</u>	<u>2,641,636</u>	<u>19,739,039</u>	
Balance end of year	<u>\$ 17,377,386</u>	<u>\$ 2,685,977</u>	<u>\$ 20,063,363</u>	
	Total Per Financial Statements	Budget Adjustments	Budget Basis	Amended Budget
Amount raised by taxation	\$ 300,250	\$ --	\$ 300,250	\$ 295,393
Other revenues	<u>12,921,086</u>	<u>11,034</u>	<u>12,932,120</u>	<u>13,535,607</u>
	13,221,336	11,034	13,232,370	13,831,000
Expenses	<u>12,897,012</u>	<u>99,375</u>	<u>12,996,387</u>	<u>13,831,000</u>
Net	324,324	(88,341)	235,983	--
Balance beginning of year	<u>19,739,039</u>	<u>(2,869,216)</u>	<u>16,869,823</u>	<u>16,869,823</u>
Balance end of year	<u>\$ 20,063,363</u>	<u>\$(2,957,557)</u>	<u>\$ 17,105,806</u>	<u>\$ 16,869,823</u>

See Independent Auditor's Report.

SUPPLEMENTARY INFORMATION

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Consolidating Balance Sheets
June 30, 2012

ASSETS

	<u>Hospital</u>	<u>Foundation</u>	<u>Total</u>
Current Assets:			
Cash	\$ 802,398	\$ --	\$ 802,398
Patient receivables, net	1,242,060	--	1,242,060
Other receivables	65,308	--	65,308
Inventory	176,402	--	176,402
Prepaid expense	83,731	--	83,731
Succeeding year property tax receivable	291,000	--	291,000
Internally designated assets	456,734	--	456,734
Total current assets	3,117,633	--	3,117,633
Designated Assets:			
Internally designated assets	7,091,673	--	7,091,673
Restricted assets	200,085	2,485,892	2,685,977
Current portion	(456,734)	--	(456,734)
	6,835,024	2,485,892	9,320,916
Depreciable Capital Assets, Net	11,495,158	--	11,495,158
Non-depreciable Capital Assets	192,729	--	192,729
Other Assets	176,464	--	176,464
Total assets	<u>\$ 21,817,008</u>	<u>\$ 2,485,892</u>	<u>\$ 24,302,900</u>

LIABILITIES AND NET ASSETS

Current Liabilities:			
Current maturities of long-term debt	\$ 278,540	\$ --	\$ 278,540
Accounts payable	454,709	--	454,709
Accrued employee compensation	350,819	--	350,819
Payroll taxes withheld and accrued	18,811	--	18,811
Accrued interest payable	16,470	--	16,470
Senior housing deposits	79,201	--	79,201
Estimated third-party payor settlements	457,000	--	457,000
Deferred revenue	438,365	--	438,365
Total current liabilities	2,093,915	--	2,093,915
Long-Term Debt, less current maturities	2,145,622	--	2,145,622
Net Assets:			
Invested in capital assets, net of related debt	9,393,465	--	9,393,465
Restricted - expendable	200,085	2,485,892	2,685,977
Unrestricted	7,983,921	--	7,983,921
Total liabilities and net assets	<u>\$ 21,817,008</u>	<u>\$ 2,485,892</u>	<u>\$ 24,302,900</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Consolidating Balance Sheets
June 30, 2011

ASSETS

	<u>Hospital</u>	<u>Foundation</u>	<u>Total</u>
Current Assets:			
Cash	\$ 864,385	\$ --	\$ 864,385
Patient receivables, net	1,089,996	--	1,089,996
Other receivables	67,909	--	67,909
Inventory	150,293	--	150,293
Prepaid expense	91,335	--	91,335
Succeeding year property tax receivable	291,000	--	291,000
Internally designated assets	<u>386,396</u>	<u>--</u>	<u>386,396</u>
Total current assets	2,941,314	--	2,941,314
Designated Assets:			
Internally designated assets	6,326,702	--	6,326,702
Restricted assets	244,085	2,397,551	2,641,636
Current portion	<u>(386,396)</u>	<u>--</u>	<u>(386,396)</u>
	6,184,391	2,397,551	8,581,942
Depreciable Capital Assets, Net	11,994,870	--	11,994,870
Non-depreciable Capital Assets	79,991	--	79,991
Other Assets	<u>212,704</u>	<u>--</u>	<u>212,704</u>
Total assets	<u>\$ 21,413,270</u>	<u>\$ 2,397,551</u>	<u>\$ 23,810,821</u>

LIABILITIES AND NET ASSETS

Current Liabilities:			
Current maturities of long-term debt	\$ 268,224	\$ --	\$ 268,224
Accounts payable	356,709	--	356,709
Accrued employee compensation	316,408	--	316,408
Payroll taxes withheld and accrued	76,457	--	76,457
Accrued interest payable	18,172	--	18,172
Senior housing deposits	81,649	--	81,649
Estimated third-party payor settlements	239,000	--	239,000
Deferred revenue	<u>291,000</u>	<u>--</u>	<u>291,000</u>
Total current liabilities	1,647,619	--	1,647,619
Long-Term Debt, less current maturities	2,424,163	--	2,424,163
Net Assets:			
Invested in capital assets, net of related debt	9,583,493	--	9,583,493
Restricted - expendable	244,085	2,397,551	2,641,636
Unrestricted	<u>7,513,910</u>	<u>--</u>	<u>7,513,910</u>
Total liabilities and net assets	<u>\$ 21,413,270</u>	<u>\$ 2,397,551</u>	<u>\$ 23,810,821</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Consolidating Statements of Revenues, Expenses and Changes in Net Assets
Year ended June 30, 2012

	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Revenue:				
Net patient service revenue	\$ 11,467,811	\$ --	\$ --	\$ 11,467,811
Other revenue	<u>1,321,582</u>	<u>--</u>	<u>--</u>	<u>1,321,582</u>
Total revenue	12,789,393	--	--	12,789,393
Expenses:				
Nursing service	2,451,233	--	--	2,451,233
Other professional service	4,300,571	--	--	4,300,571
Senior housing	447,434	--	--	447,434
General service	1,476,538	--	--	1,476,538
Fiscal and administrative service	3,020,690	--	--	3,020,690
Provision for depreciation	1,170,063	--	--	1,170,063
Amortization	<u>24,555</u>	<u>--</u>	<u>--</u>	<u>24,555</u>
Total expenses	<u>12,891,084</u>	<u>--</u>	<u>--</u>	<u>12,891,084</u>
Operating Loss	(101,691)	--	--	(101,691)
Non-Operating Revenues (Expenses):				
County taxes	300,250	--	--	300,250
Noncapital grants and contributions	18,118	53,022	--	71,140
Investment income	66,758	93,720	--	160,478
Gain on disposal of assets	55	--	--	55
Interest expense	(105,303)	--	--	(105,303)
Foundation expenses	<u>--</u>	<u>(58,401)</u>	<u>52,473</u>	<u>(5,928)</u>
Non-operating revenues, net	<u>279,878</u>	<u>88,341</u>	<u>52,473</u>	<u>420,692</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions and Change in Accounting Estimate	178,187	88,341	52,473	319,001
Capital Grants and Contributions	57,796	--	(52,473)	5,323
Change in Accounting Estimate (Note N)	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Increase in Net Assets	235,983	88,341	--	324,324
Net Assets Beginning of Year	<u>17,341,488</u>	<u>2,397,551</u>	<u>--</u>	<u>19,739,039</u>
Net Assets End of Year	<u>\$ 17,577,471</u>	<u>\$ 2,485,892</u>	<u>\$ --</u>	<u>\$ 20,063,363</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Consolidating Statements of Revenues, Expenses and Changes in Net Assets
Year ended June 30, 2011

	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Total</u>
Revenue:				
Net patient service revenue	\$ 10,777,543	\$ --	\$ --	\$ 10,777,543
Other revenue	<u>1,344,515</u>	<u>--</u>	<u>--</u>	<u>1,344,515</u>
Total revenue	12,122,058	--	--	12,122,058
Expenses:				
Nursing service	2,316,549	--	--	2,316,549
Other professional service	3,860,000	--	--	3,860,000
Senior housing	427,567	--	--	427,567
General service	1,488,591	--	--	1,488,591
Fiscal and administrative service	2,742,127	--	--	2,742,127
Provision for depreciation	1,148,464	--	--	1,148,464
Amortization	<u>23,336</u>	<u>--</u>	<u>--</u>	<u>23,336</u>
Total expenses	<u>12,006,634</u>	<u>--</u>	<u>--</u>	<u>12,006,634</u>
Operating Income	115,424	--	--	115,424
Non-Operating Revenues (Expenses):				
County taxes	301,261	--	--	301,261
Noncapital grants and contributions	23,720	15,647	--	39,367
Investment income	93,526	316,857	--	410,383
Gain on disposal of assets	2,305	--	--	2,305
Interest expense	(115,219)	--	--	(115,219)
Foundation expenses	<u>--</u>	<u>(170,725)</u>	<u>160,438</u>	<u>(10,287)</u>
Non-operating revenues, net	<u>305,593</u>	<u>161,779</u>	<u>160,438</u>	<u>627,810</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions and Change in Accounting Estimate	421,017	161,779	160,438	743,234
Capital Grants and Contributions	160,438	--	(160,438)	--
Change in Accounting Estimate (Note N)	<u>245,000</u>	<u>--</u>	<u>--</u>	<u>245,000</u>
Increase in Net Assets	826,455	161,779	--	988,234
Net Assets Beginning of Year	<u>16,515,033</u>	<u>2,235,772</u>	<u>--</u>	<u>18,750,805</u>
Net Assets End of Year	<u>\$ 17,341,488</u>	<u>\$ 2,397,551</u>	<u>\$ --</u>	<u>\$ 19,739,039</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Patient Receivables
June 30,

Analysis of Aging:

<u>Days Since Discharge</u>	<u>2012</u>		<u>2011</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30	\$ 1,157,272	70.6%	\$ 1,059,815	77.0%
31 - 90	385,322	23.5	259,127	18.8
91 - 120	69,323	4.2	47,699	3.5
121 and over	28,143	1.7	9,355	0.7
	<u>1,640,060</u>	<u>100.0%</u>	<u>1,375,996</u>	<u>100.0%</u>
Allowance for doubtful accounts	130,000		125,000	
Allowance for contractual adjustments	<u>268,000</u>		<u>161,000</u>	
	<u>\$ 1,242,060</u>		<u>\$ 1,089,996</u>	

Allowance for Doubtful Accounts:

	<u>Year ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
Balance, beginning	\$ 125,000	\$ 200,000
Provision for bad debts	285,835	298,876
Recoveries of accounts previously written off	<u>303,131</u>	<u>285,434</u>
	713,966	784,310
Accounts written off	<u>583,966</u>	<u>659,310</u>
Balance, ending	<u>\$ 130,000</u>	<u>\$ 125,000</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Inventory/Prepaid Expense
June 30,

	<u>2012</u>	<u>2011</u>
<u>Inventory</u>		
Central supply	\$ 70,778	\$ 47,263
Pharmacy	81,747	80,826
Dietary	<u>23,877</u>	<u>22,204</u>
	<u>\$ 176,402</u>	<u>\$ 150,293</u>
 <u>Prepaid Expense</u>		
Insurance	\$ 64,580	\$ 75,410
Contracts	<u>19,151</u>	<u>15,925</u>
	<u>\$ 83,731</u>	<u>\$ 91,335</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Patient Service Revenue
Year ended June 30,

	2012		
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Swing Bed</u>
Daily Patient Services:			
Medical and surgical	\$ 349,050	\$ --	\$ --
Swing bed - SNF	--	--	277,550
NF care	--	--	29,835
Telemetry	--	--	--
	<u>349,050</u>	<u>--</u>	<u>307,385</u>
Other Nursing Services:			
Observation	--	101,570	--
Operating and recovery rooms	18,109	1,865,849	--
Central services and supply	9,383	5,133	26,074
Emergency services	6,921	899,374	--
Cardiac rehabilitation	250	65,580	--
	<u>34,663</u>	<u>2,937,506</u>	<u>26,074</u>
Other Professional Services:			
Emergency room physicians	37,229	487,843	5,015
Laboratory and blood bank	175,304	2,096,187	25,108
Electrocardiology	6,840	150,043	--
Cardiovascular diagnostics	8,330	124,341	--
Radiology	70,357	2,206,832	10,642
Pharmacy	480,813	1,077,110	175,812
Anesthesiology	--	687,553	--
Respiratory therapy	169,833	227,725	39,158
Physical therapy	6,240	468,078	53,878
Occupational therapy	3,515	78,111	56,750
Speech therapy	2,515	3,905	25,480
Massage therapy	12,770	--	--
Ambulance	--	519,986	--
Home health/public health	--	394,780	--
	<u>973,746</u>	<u>8,522,494</u>	<u>391,843</u>
	<u>\$ 1,357,459</u>	<u>\$ 11,460,000</u>	<u>\$ 725,302</u>

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2012		2011
LTC	Total	Total
\$ --	\$ 349,050	\$ 332,150
--	277,550	179,200
1,244,250	1,274,085	1,286,651
--	--	27,600
<u>1,244,250</u>	<u>1,900,685</u>	<u>1,825,601</u>
--	101,570	119,313
--	1,883,958	1,345,745
19,979	60,569	161,437
--	906,295	909,447
--	65,830	65,795
<u>19,979</u>	<u>3,018,222</u>	<u>2,601,737</u>
--	530,087	497,049
--	2,296,599	2,192,631
--	156,883	162,506
--	132,671	139,737
--	2,287,831	1,960,343
206,922	1,940,657	1,813,889
--	687,553	233,491
70	436,786	487,728
--	528,196	395,665
--	138,376	86,805
--	31,900	35,425
--	12,770	15,826
--	519,986	522,910
--	394,780	449,224
<u>206,992</u>	<u>10,095,075</u>	<u>8,993,229</u>
<u>\$ 1,471,221</u>	<u>\$ 15,013,982</u>	<u>\$ 13,420,567</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Revenue and Related Adjustments
Year ended June 30,

	<u>2012</u>	<u>2011</u>
<u>Net Patient Service Revenue</u>		
Patient service revenue	\$ 15,013,982	\$ 13,420,567
Contractual adjustments	(3,187,138)	(2,293,914)
Discounts and allowances	(2,887)	(419)
Provision for bad debts	(285,835)	(298,876)
Charity care	<u>(70,311)</u>	<u>(49,815)</u>
	<u>\$ 11,467,811</u>	<u>\$ 10,777,543</u>
 <u>Other Revenue</u>		
Senior housing revenue - independent living	\$ 543,662	\$ 586,890
Senior housing revenue - assisted living	477,864	452,721
Cafeteria	39,064	53,201
Congregate meals	77,597	75,868
Employee prescriptions	80,040	68,781
Public health county support	75,000	75,000
Purchase discounts	235	287
Medical records transcript fees	1,680	2,853
Rental income	<u>26,440</u>	<u>28,914</u>
	<u>\$ 1,321,582</u>	<u>\$ 1,344,515</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Nursing Service Expenses
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Administrative:		
Salaries and wages	\$ 119,565	\$ 98,668
Supplies and other expense	<u>2,688</u>	<u>1,080</u>
	122,253	99,748
Medical and Surgical:		
Salaries and wages	703,709	639,068
Supplies and other expense	<u>47,441</u>	<u>59,781</u>
	751,150	698,849
Long-Term Care:		
Salaries and wages	740,805	668,419
Supplies and other expense	<u>62,902</u>	<u>56,455</u>
	803,707	724,874
Operating and Recovery Rooms:		
Salaries and wages	190,064	188,622
Supplies and other expense	<u>187,369</u>	<u>159,387</u>
	377,433	348,009
Central Services and Supply:		
Salaries and wages	87,277	81,779
Supplies and other expense	<u>45,903</u>	<u>126,472</u>
	133,180	208,251
Emergency Services:		
Salaries and wages	205,889	206,172
Supplies and other expense	<u>38,320</u>	<u>16,802</u>
	244,209	222,974

(continued next page)

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Nursing Service Expenses - continued
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Cardiac Rehabilitation:		
Salaries and wages	\$ 16,762	\$ 10,654
Supplies and other expense	<u>2,539</u>	<u>3,190</u>
	<u>19,301</u>	<u>13,844</u>
	<u>\$ 2,451,233</u>	<u>\$ 2,316,549</u>

SUMMARY

Salaries and wages	\$ 2,064,071	\$ 1,893,382
Supplies and other expense	<u>387,162</u>	<u>423,167</u>
	<u>\$ 2,451,233</u>	<u>\$ 2,316,549</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Emergency Room Physicians: Professional fees	\$ 817,284	\$ 772,473
Laboratory and Blood Bank:		
Salaries and wages	362,824	344,928
Professional fees	42,086	32,416
Supplies and other expense	<u>270,293</u>	<u>242,661</u>
	675,203	620,005
Electrocardiology:		
Professional fees	10,841	12,536
Supplies and other expense	<u>--</u>	<u>415</u>
	10,841	12,951
Cardiovascular Diagnostics:		
Salaries and wages	1,122	903
Supplies and other expense	<u>23,939</u>	<u>21,170</u>
	25,061	22,073
Radiology:		
Salaries and wages	255,116	258,033
Supplies and other expense	<u>435,039</u>	<u>383,775</u>
	690,155	641,808
Pharmacy:		
Salaries and wages	153,493	157,995
Supplies and other expense	<u>488,031</u>	<u>448,432</u>
	641,524	606,427
Anesthesiology:		
Professional fees	316,930	96,575
Supplies and other expense	<u>9,721</u>	<u>6,605</u>
	326,651	103,180
Respiratory Therapy:		
Salaries and wages	34,410	23,505
Supplies and other expense	<u>74,810</u>	<u>71,009</u>
	109,220	94,514
Physical Therapy:		
Salaries and wages	67,109	168,666
Professional fees	139,116	5,657
Supplies and other expense	<u>5,342</u>	<u>10,064</u>
	211,567	184,387

(continued next page)

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses - continued
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Occupational Therapy:		
Salaries and wages	\$ 938	\$ 796
Professional fees	80,570	51,530
Supplies and other expense	<u>76</u>	<u>--</u>
	81,584	52,326
Speech Therapy:		
Salaries and wages	8,647	--
Professional fees	17,340	21,555
Supplies and other expense	<u>1,433</u>	<u>--</u>
	27,420	21,555
Massage Therapy:		
Supplies and other expense	9,242	12,847
Ambulance:		
Salaries and wages	95,873	92,539
Supplies and other expense	<u>41,259</u>	<u>38,705</u>
	137,132	131,244
Outpatient Clinics:		
Salaries and wages	23,154	24,994
Supplies and other expense	<u>2,001</u>	<u>1,992</u>
	25,155	26,986
Home Health/Public Health:		
Salaries and wages	237,632	264,792
Supplies and other expense	<u>76,914</u>	<u>77,303</u>
	314,546	342,095
Medical Records:		
Salaries and wages	169,354	183,651
Supplies and other expense	<u>28,632</u>	<u>31,478</u>
	197,986	215,129
	<u>\$ 4,300,571</u>	<u>\$ 3,860,000</u>

SUMMARY

Salaries and wages	\$ 1,409,672	\$ 1,520,802
Professional fees	1,424,167	992,742
Supplies and other expense	<u>1,466,732</u>	<u>1,346,456</u>
	<u>\$ 4,300,571</u>	<u>\$ 3,860,000</u>

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HUMBOLDT COUNTY MEMORIAL HOSPITAL
Senior Housing Expenses
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Springvale - Independent Living:		
Salaries and wages	\$ 98,309	\$ 86,355
Utilities	37,455	36,547
Repairs and maintenance	1,410	50
Supplies and other expense	<u>77,882</u>	<u>80,510</u>
	215,056	203,462
Springvale - Assisted Living:		
Salaries and wages	202,860	191,368
Utilities	24,019	25,544
Supplies and other expense	<u>5,499</u>	<u>7,193</u>
	<u>232,378</u>	<u>224,105</u>
	<u>\$ 447,434</u>	<u>\$ 427,567</u>

SUMMARY

Salaries and wages	\$ 301,169	\$ 277,723
Supplies and other expense	<u>146,265</u>	<u>149,844</u>
	<u>\$ 447,434</u>	<u>\$ 427,567</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
General Service Expenses
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Dietary:		
Salaries and wages	\$ 341,167	\$ 328,531
Food, supplies and other expense	<u>283,567</u>	<u>290,589</u>
	624,734	619,120
Plant Operation and Maintenance:		
Salaries and wages	205,679	181,722
Utilities	141,112	155,268
Supplies and other expense	<u>172,910</u>	<u>246,390</u>
	519,701	583,380
Housekeeping:		
Salaries and wages	164,282	140,271
Supplies and other expense	<u>59,714</u>	<u>57,237</u>
	223,996	197,508
Laundry and Linen:		
Salaries and wages	291	1,556
Supplies and other expense	<u>107,816</u>	<u>87,027</u>
	108,107	88,583
	<u>\$ 1,476,538</u>	<u>\$ 1,488,591</u>

SUMMARY

Salaries and wages	\$ 711,419	\$ 652,080
Supplies and other expense	<u>765,119</u>	<u>836,511</u>
	<u>\$ 1,476,538</u>	<u>\$ 1,488,591</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Fiscal and Administrative Service Expenses
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Fiscal and Administrative Service:		
Salaries and wages	\$ 360,234	\$ 319,630
Professional fees	272,902	296,727
Recruiting	77,735	77,686
Supplies and other expense	<u>185,224</u>	<u>149,687</u>
	896,095	843,730
Information Systems:		
Supplies and other expense	193,311	174,634
Employee Welfare:		
Social Security tax	354,550	344,783
Iowa Public Employees' Retirement System	393,350	328,660
Group health insurance	942,712	801,698
Workers' compensation insurance	72,322	58,506
Unemployment expense	1,347	15,128
Other employee benefits	<u>44,362</u>	<u>41,240</u>
	1,808,643	1,590,015
Community Development:		
Salaries and wages	50,811	47,110
Supplies and other expense	<u>3,562</u>	<u>27,817</u>
	54,373	74,927
Insurance:		
Liability and property	48,052	58,821
Infection Control:		
Salaries and wages	19,521	--
Supplies and other expense	<u>695</u>	<u>--</u>
	<u>20,216</u>	<u>--</u>
	<u>\$ 3,020,690</u>	<u>\$ 2,742,127</u>

SUMMARY

Salaries and wages	\$ 430,566	\$ 366,740
Employee benefits	1,808,643	1,590,015
Professional fees	272,902	296,727
Supplies and other expense	<u>508,579</u>	<u>488,645</u>
	<u>\$ 3,020,690</u>	<u>\$ 2,742,127</u>

(continued next page)

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Fiscal and Administrative Service Expenses - continued
Year ended June 30,

	<u>2012</u>	<u>2011</u>
<u>SUMMARY OF EXPENSES</u>		
Salaries and wages	\$ 4,916,897	\$ 4,710,727
Employee benefits	1,808,643	1,590,015
Professional fees	1,697,069	1,289,469
Supplies and other expense	<u>3,273,857</u>	<u>3,244,623</u>
	<u>\$ 11,696,466</u>	<u>\$ 10,834,834</u>

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Comparative Statistics
Year ended June 30,

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Acute Care:					
Admissions	175	204	271	310	285
Discharges	174	203	273	308	283
Patient Days	545	562	715	923	828
Average Length of Stay	3.13	2.77	2.62	3.00	2.93
Average Occupied Beds	1.5	1.5	2.0	2.5	2.3
Swing Bed:					
Admissions	107	82	58	82	89
Discharges	106	81	58	85	89
SNF Days	792	512	489	587	567
NF Days	120	93	43	81	74
Long-Term Care Patient Days	9,442	9,958	9,392	9,243	9,890
Combined Average Occupied Beds	29.8	30.5	29.1	29.7	31.0
Outpatient Occasions of Service	42,469	38,401	36,924	38,516	42,259
Home Health Visits	--	--	9,959	10,163	10,585

See Independent Auditor's Report.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Comparative Balance Sheets (Hospital Only)
June 30,

	<u>2012</u>	<u>2011</u>
Current Assets:		
Cash	\$ 802,398	\$ 864,385
Patient receivables, net	1,242,060	1,089,996
Other receivables	65,308	67,909
Inventory	176,402	150,293
Prepaid expense	83,731	91,335
Succeeding year property tax receivable	291,000	291,000
Internally designated assets	<u>456,734</u>	<u>386,396</u>
Total current assets	3,117,633	2,941,314
Other Assets:		
Designated and restricted assets	6,835,024	6,184,391
Capital assets, net	11,687,887	12,074,861
Deferred financing costs	176,464	201,019
Notes receivable	<u>--</u>	<u>11,685</u>
Total other assets	<u>18,699,375</u>	<u>18,471,956</u>
Total assets	<u>\$ 21,817,008</u>	<u>\$ 21,413,270</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 278,540	\$ 268,224
Accounts payable	454,709	356,709
Accrued expenses	369,630	392,865
Accrued interest payable	16,470	18,172
Senior housing deposits	79,201	81,649
Estimated third-party payor settlements	457,000	239,000
Deferred revenue	147,365	--
Deferred revenue for succeeding year property tax receivable	<u>291,000</u>	<u>291,000</u>
Total current liabilities	2,093,915	1,647,619
Long-Term Debt, Net	<u>2,145,622</u>	<u>2,424,163</u>
Total liabilities	4,239,537	4,071,782
Net Assets	<u>17,577,471</u>	<u>17,341,488</u>
Total liabilities and net assets	<u>\$ 21,817,008</u>	<u>\$ 21,413,270</u>

See Independent Auditor's Report.

<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 1,547,971	\$ 831,204	\$ 1,133,475
1,114,832	1,426,892	1,219,502
50,680	24,988	72,209
225,017	216,126	167,624
81,130	71,200	68,800
291,000	289,000	289,000
430,495	475,170	741,583
<u>3,741,125</u>	<u>3,334,580</u>	<u>3,692,193</u>
5,420,288	4,414,024	3,801,320
12,421,893	12,855,858	12,356,932
224,355	246,745	268,677
23,371	22,582	--
<u>18,089,907</u>	<u>17,539,209</u>	<u>16,426,929</u>
<u>\$ 21,831,032</u>	<u>\$ 20,873,789</u>	<u>\$ 20,119,122</u>
\$ 258,327	\$ 248,831	\$ 246,455
514,458	489,081	763,822
561,717	531,473	532,696
19,804	21,371	15,662
86,306	80,693	76,572
892,000	493,000	296,000
--	--	--
<u>291,000</u>	<u>289,000</u>	<u>289,000</u>
<u>2,623,612</u>	<u>2,153,449</u>	<u>2,220,207</u>
<u>2,692,387</u>	<u>2,950,714</u>	<u>3,199,545</u>
5,315,999	5,104,163	5,419,752
<u>16,515,033</u>	<u>15,769,626</u>	<u>14,699,370</u>
<u>\$ 21,831,032</u>	<u>\$ 20,873,789</u>	<u>\$ 20,119,122</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Comparative Statements of Revenues, Expenses and Changes in Net Assets (Hospital Only)
Year ended June 30,

	<u>2012</u>	<u>2011</u>
Patient Service Revenue	\$ 15,013,982	\$ 13,420,567
Adjustments to Patient Service Revenue	<u>(3,546,171)</u>	<u>(2,643,024)</u>
Net Patient Service Revenue	11,467,811	10,777,543
Other Revenue	<u>1,321,582</u>	<u>1,344,515</u>
Total Revenue	12,789,393	12,122,058
Expenses	<u>12,891,084</u>	<u>12,006,634</u>
Operating Income (Loss)	(101,691)	115,424
Non-Operating Revenues, Net	<u>279,878</u>	<u>305,593</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions and Change in Accounting Estimate	178,187	421,017
Capital Grants and Contributions	57,796	160,438
Change in Accounting Estimate	<u>--</u>	<u>245,000</u>
Increase in Net Assets	<u>\$ 235,983</u>	<u>\$ 826,455</u>

See Independent Auditor's Report.

<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 14,179,659	\$ 14,970,898	\$ 13,755,478
<u>(3,096,108)</u>	<u>(3,558,164)</u>	<u>(3,488,342)</u>
11,083,551	11,412,734	10,267,136
<u>1,376,698</u>	<u>1,375,328</u>	<u>1,378,902</u>
12,460,249	12,788,062	11,646,038
<u>12,136,600</u>	<u>12,297,016</u>	<u>11,192,520</u>
323,649	491,046	453,518
<u>421,758</u>	<u>511,653</u>	<u>667,370</u>
745,407	1,002,699	1,120,888
--	67,557	133,291
<u>--</u>	<u>--</u>	<u>--</u>
<u>\$ 745,407</u>	<u>\$ 1,070,256</u>	<u>\$ 1,254,179</u>

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Trustees
Humboldt County Memorial Hospital
Humboldt, Iowa

We have audited the financial statements of Humboldt County Memorial Hospital as of and for the year ended June 30, 2012, and have issued our report thereon dated September 28, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of Humboldt County Memorial Hospital is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Humboldt County Memorial Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Humboldt County Memorial Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

To the Board of Trustees
Humboldt County Memorial Hospital

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 12-I-A to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Humboldt County Memorial Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Humboldt County Memorial Hospital's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Hospital's responses, we did not audit the Hospital's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Humboldt County Memorial Hospital and other parties to whom the Hospital may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Annexed, Bell, Thyer & Co. P.C.

Atlantic, Iowa
September 28, 2012

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Schedule of Findings
Year ended June 30, 2012

PART I - SIGNIFICANT DEFICIENCIES

12-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Hospital. This deficiency is common among most small rural Hospitals.

Recommendation: We recognize that it may not be economically feasible for the Hospital to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Hospital to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

* * *

PART II - REQUIRED STATUTORY REPORTING

12-II-A Certified Budget: Hospital expenditures during the year ended June 30, 2012 did not exceed amounts budgeted.

12-II-B Questionable Expenditures: During the audit, we noted a certain expenditure approved in the Board minutes that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979. The expense was as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Various Organizations	Employee recognition banquet	\$ 4,225

Recommendation: We recommend that the Board continue to document the public purpose of such an expenditure before authorization is given.

Response: The expenditure is considered part of the employee benefit package and the Board feels it meets the requirements of public purpose as defined by the Attorney General's opinion dated April 25, 1979.

Conclusion: Response accepted.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Schedule of Findings
Year ended June 30, 2012

PART II - REQUIRED STATUTORY REPORTING - Continued

12-II-C Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

12-II-D Business Transactions: Business transactions between the Hospital and Hospital officials and/or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Mike Porter, Maintenance Director, Owner of C & M Repair	Miscellaneous ambulance repairs	\$ 2,984

The transactions with C & M Repair do not appear to represent conflicts of interest since the purchases are not from an entity in which a trustee has a pecuniary interest and another department director approves the purchases.

12-II-E Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

12-II-F Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

12-II-G Economic Development: During the year ended June 30, 2012, the Hospital paid \$1,000 to the Humboldt County Development Association. The Hospital Board has documented the public benefits received from this expenditure, however, it is disclosed here for public information.

According to Chapter 15A of the Code of Iowa and an Attorney General's opinion dated August 28, 1986, government financing of economic development may, in appropriate circumstances, serve a public purpose. The opinion advises the governing body to evaluate the public benefits to be obtained and discusses the specific criteria to be considered in documenting public purpose.

Recommendation: The Board should continue to evaluate and document the public purpose served by these expenditures before authorizing further payments.

Response: We will continue to evaluate and document the public purpose in the future.

Conclusion: Response accepted.

* * *